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25 February 1982

West Europe Report

(FOUO 12/82)



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WEST EUROPE REPORT

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THEATER FORCES

FRANCE

SECOND IRBM SQUADRON TO BE OPERATIONAL IN LATE 1982

Paris AIR ET COSMOS in French 31 Oct 81 pp 26-27

[Article by Jean de Galard: "1st GMS: 2nd Launching Unit Operational By Year-End 1982"]

[Text] For his first Air Force visit, Defense Minister Charles Hernu chose the two nearby bases at Orange and Apt. Present were a dual delegation of members of Parliament--members of the National Defense and Armed Forces Committee of the National Assembly (among them, its president, Mr Louis Darinot) and members of the Foreign Affairs and Defense Committee of the Senate (among them, its president Mr Repiquet)--and numerous elected local officials and regional notables, as well as the prefect of the department of Vaucluse.

On Tuesday 27 October, the minister had paid a visit during the morning hours to Air Base 115, which is commanded by Colonel Richalet and which houses an air defense unit--the 5th Fighter Wing commanded by Lieutenant Colonel Gachelin--and an FAS [Strategic Air Force] unit--the Cevennes 3/91 Squadron.

At Orange, the minister was greeted by Air Force Gen Guy Fleury, the Air Force chief of staff, who was flanked by Air Force Lt Gens Elie Humbert, commander of the FAS, and Bernard Capillon, commander of Air Defense, and by Air Force Maj Gen Jean Bonnet, commander of the 4th Air Region.

The minister witnessed two sequences of takeoffs on alert involving three Mirage F-1C's in one of the exercises and one Mirage IV A two-seater in the other.

He spent a good deal of time with the noncommissioned officers of the base, whose president, Adjutant Jacquin, laid before him their most urgent problems and pressing concerns, namely, the proposed prohibition against holding civilian jobs on the side and the accrual of retirement benefits.

The minister dwelt on the characteristics that distinguish the Air Force: Rapidity, technical proficiency, operational flexibility, youth of its officers, permanent readiness. Concerning the first and last of these points, he disclosed that, with the approval of the president of the Republic, he had instructed the chiefs of the Armed Services to reduce still further, if possible, the response times following the sounding of an alert. He also disclosed that since June he

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and the president of the Republic had visited the FAS and CAFDA [Air Defense Forces Air Command] CP's [command posts] at Taverny to experience at first hand a nuclear alert exercise called unexpectedly by the chief of staff of the Armed Forces. On another subject, he announced that he plans to add to the 1982 defense budget for discussion by Parliament some 10 measures, to the 20-odd he had submitted at the time he released his draft budget to the press, beneficial to draftees.

In the afternoon, the minister visited the base at Apt, which houses the 1st GMS [Strategic Missile Group], who are responsible for the launching of the missiles deployed in the underground silos on the Albion plateau. General de Buretel de Chasse, commander of the 1st GMS, outlined for him the program to modernize its second missile-launching unit (nine missiles) which is to become operational again, equipped with S 3 missiles, by the end of 1982.

The SSBS [Strategic Surface-Surface Ballistic] missile S 3, it should be recalled, is a two-stage solid-propellant rocket, consisting of a 16-ton first stage and a 6-ton second stage, armed with a megatonic thermonuclear warhead. As compared with the S 2 version with which the 1st GMS's two launching units were equipped initially, the S 3 version presents (besides its higher power) some substantial advantages from the standpoint of penetration potential: Speed of penetration, diversified trajectories, windows, hardened installation of on-board equipment. With respect to the latter point, the S 3 versions of the 2nd Launching Unit will be better equipped than those of the 1st Launching Unit, which has been operational since 1 June 1980; this explains the slippage in the initially planned unit in-service date. The modernization of the 2nd Launching Unit has to do mainly with a stiffening of its resistance to electromagnetic interference. The modifications and improvements made to the 2nd Unit's missiles will be made subsequently to the 1st Launching Unit's S 3 versions.

Close to 2,200 persons serve in the SSBS force, of which 1,000 are draftees whose performance is most satisfactory.

At the conclusion of his visit, after having dwelt on the fact that the Air Force, a thoroughly technical service, is the service to which most young officers are attracted, the minister pointed out that it is also the service charged permanently with operating the two components of our nuclear deterrence strategy: The manned component and the SSBS component. The youth of the Air Force officer corps, the minister explained, calls for greater thoroughness of training. And lastly, the minister stated his intent to try to have adopted a draft budget that will permit an increase in the number of flying hours for each Air Force fighter pilot.

For many years now, funding for this purpose in France has been based on a figure of 180 flying hours per pilot per year.

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ENERGY ECONOMICS

ITALY

PLAN ENVISIONS MINOR ROLE FOR GEOTHERMAL ENERGY

Milan EUROPEO in Italian 28 Dec 81 pp 96-97, 99

[Article by Lanfranco Vaccari: "How Hot Was My Land--Energy/A Forgotten Alternative Source"]

[Text] With the Larderello geothermal system, Italy was in the vanguard at the beginning of the century. Then came faith in oil. And now? We would like to rediscover the old "steam-holes." But will we?

By 1984, 3,000 apartments in Ferrara will be heated with hot water extracted from the wells in the Casaglia zone, 5 kilometers from the center of the city. For the first time in Italy, part of the energy needs of a large urban area will be supplied by the geothermal system that spreads throughout almost all of Italy's territory, at an average depth of 3,000 meters. In monetary terms, the Ferrara project means a saving of 3,500 tons of gas-oil per year--thus, Lit 1.2 billion. By the end of the decade, if all goes well, the number of apartments hooked up to the system will be decupled, and so will the savings.

Is this a new El Dorado of energy? Does it mean that we have here at home, and free of charge, an energy source alternative to oil and nuclear power?

Florian Villa, president of the Italian geologists, is allusive: "It is as if Italy were lying on top of an enormous boiler. We could use the heat it produces both for producing electricity and for direct uses: heating, agriculture, industry. But take a look at the investments provided for in the national Energy Plan. That is where the key lies."

Looking over the plan's tables, one discovers that investments of more than Lit 60 trillion in 10 years are planned. For geothermal energy, the allocation is only 1 trillion. In round figures, there will be 25 thousand for oil, 13 thousand for nuclear energy, a like amount for coal, 7 thousand for natural gas, and 5 thousand for the hydroelectric sector.

Massimiliano Guglielminetti, one of the managers in the geothermal-resources sector of AGIP [National Italian Oil Company], picks up his papers, thinks a little, and then states with the technician's cool detachment: "There has been a lot of confusion. For years, we have gone ahead with projections that are broadly optimistic and certainly not achievable in the light of present knowledge. Geothermal energy

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is an important collateral source, to be sure. It may save us a few tens of thousands of tons of oil. But let's not fool ourselves."

To follow the argument, we have to take a step backward. At a conference on "Geothermal Energy and Regions" held at Chianciano 4 years ago, sensational figures were presented. In the working-out of the ENEL [National Electric Power Agency] energy plan of 1976, it was deduced that the real geothermal potential for production of electrical energy was 114 gigawatts. This is, so to speak, the equivalent of 142 nuclear power plants of the Caorso type. The estimates of the energy plan approved a few weeks ago are for 1 gigawatt--that is, 114 times less than was thought 5 years ago. An incredible error in estimation. But is it being committed today, or was it committed at that time?

Figures are sometimes a matter of opinion, and so everyone is right. The mechanism is explained by Claudio Sommaruga, geothermal adviser to the European Communities: "The valid figures are the latest ones. Those of 1976 are true only in theory. It is true that we have all that energy potential in the ground. But to put it simply, we cannot extract it."

From a technical point of view, geothermal energy breaks down into two main groups: high heat content (that is, a flow of steam at a minimum temperature of 180 °C) and low heat content (hot water from 40 to 100 °C and steam up to 150 °C). Only the former is useful for production of electrical energy. The latter can be used for heating apartments, for hothouse cultivation, for some industrial processes. The problem in Italy is that the richest zones are also the most densely populated ones. The only exception, and an outstanding one, is Larderello, in Tuscany.

This is the oldest power plant of its kind. It began producing energy in 1905. It saves about 600,000 tons of oil per year. This is not a great amount for a country that consumes 147 million tons tep ("ton-equivalent of oil," the term to which all energy needs are reduced, no matter how they are filled, and therefore including hydroelectric energy too), but it is not negligible either.

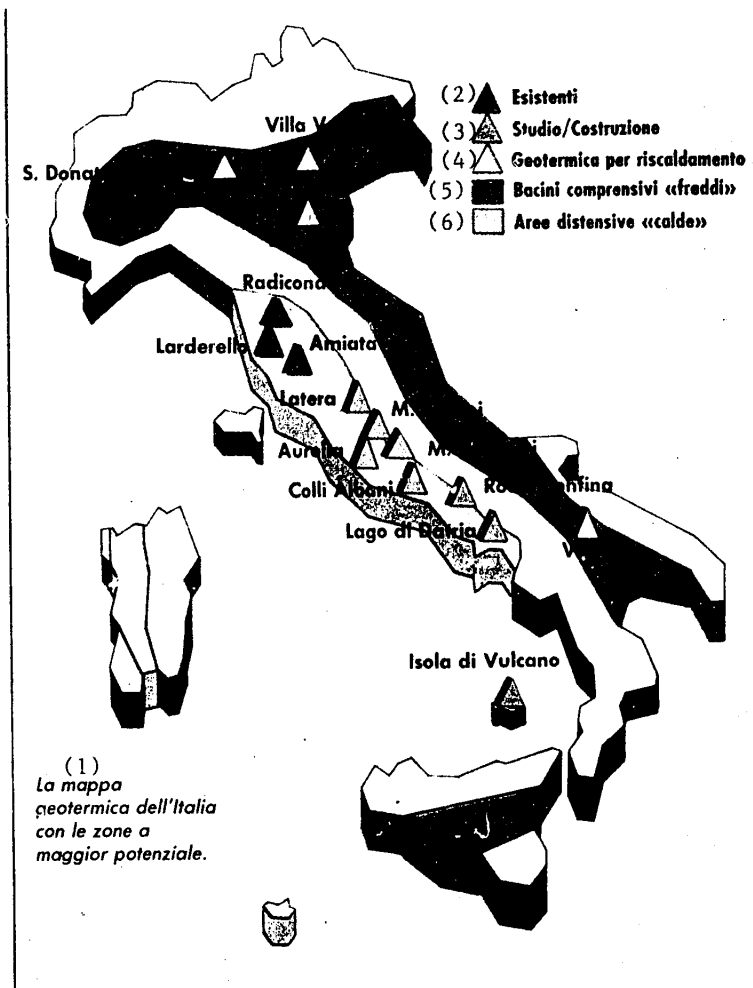
A zone with immense potential is that of the Campi Flegrei, in Campania. In a well at San Vito, near Pozzuoli, the world record was established: steam at 422 °C. In the Mofete field, contiguous to San Vito, more than 300 °C is constantly achieved. Sommaruga explains: "Development of geothermal energy depends on the status of the territory concerned, and not vice-versa." Simply put, this means that wells cannot be sunk in the middle of the towns, and the population cannot be evacuated.

In the particular case of the Campi Flegrei, there is an environmental problem in addition to the technical one. Guglielminetti tells about the insuperable difficulties in handling steam at such a high temperature and keeping it under control. Elsewhere, as in northern Lazio, the mining bet is sometimes lost. Thus there is the Latera well, which functions very well and produces 10 megawatts; but a kilometer beyond it, in the same geological conditions, an absolutely sterile well was sunk.

Thus, peeling off the leaves of geothermal energy as if it were an artichoke, one arrives at the heart of the problem. Which is, in the most ambitious version, Ferrara. And in the less spectacular version, the whole of the small-scale and medium-scale situations in which a part of the problem of heating has been solved with hot water. Abano Terme is the case most frequently cited: 130 hotels--the equivalent

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of 8,000 apartments--function on geothermal energy. And then there are all the other thermal sources, of course--some 40 of them.



Key:

- | | |
|--|----------------------------------|
| 1. The geothermal map of Italy, with the zones of greatest potential | 4. Geothermal energy for heating |
| 2. Existing | 5. Comprehensive "cold" basins |
| 3. Under study/construction | 6. "Hot" distensive areas |

This particular use of geothermal energy does not present difficulties. One need only have centralized plants in which, instead of boilers, there are heat exchangers that receive the hot water from the well and transmit the energy to radiators or heating bodies in the apartments.

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At Ferrara, the conditions are nearly ideal: high temperature (100 °C), and drilling to depths that are not excessive (1,500 m on the average). But geothermal energy, treated as a supplementary local energy source, can be exploited under less favorable conditions also. And there are innumerable projects.

In some cases, as at Vulcano, geothermal energy, though little, is all there is. They do not have drinking water there or at Lipari: they bring it from Messina, and it costs Lit 8,000 per cubic meter. And electrical energy costs Lit 160 per kWh, which is enormous. Now they are working on a well that will solve problems that are dramatic in the summer season and painful, for the buildings, in the winter. With a power of 6 or 7 megawatts and a small turbine-type power plant, not only will there always be water and electricity, but at reasonable costs too: Lit 800 per cubic meter, Lit 50-60 per kilowatt.

There is another instructive example. At Bagni di Romagna, they use to use the hot water from the hot springs for therapeutic purposes. Not all of it: only a third, and they threw out the rest. Now they are building a plant which, with the water that until just recently was wasted, will provide for heating the hospital, the town hall and many apartments.

One could go on: there is no end to the list of opportunities too long missed. The use of geothermal energy at the local level seems like the practice of the miser who, adding one penny to another, ended up a millionaire. But that is too edifying a story in a wasteful country in which energy policy often stinks of narrow interest--and where hot water is not even discovered.

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ECONOMIC

FRANCE

CGC HARDENS STANCE TOWARD SOCIALIST POLICIES, AUROUX PLAN

Paris VALEURS ACTUELLES in French 4-10 Jan 82 pp 16-17

[Article by Yann Clerc and Jean-Francois Gautier: "Managers: The Swedish Risk"]

[Text] Under pressure from its branches in business firms, the CGC
[General Confederation of Managerial Personnel] has become
"combat-oriented."

"The Polish economy is in its present state because, in my country, professionals are neither responsible, competent, nor motivated." Jean Menu, president of the members of the CGC, often cites this quote, which was made by Lech Walesa during his trip to Paris. It sums up his arguments to the government. The increasing hostility of his organization has been expressed by Jean Menin, general secretary of the confederation, as follows:

"Since 10 May we have simply been asked to change our portfolios from one side to the other. For us, increased taxes from the left or the right at the same thing."

An additional withholding of 1 percent on salaries, an accelerated removal of the upper limit of social deductions, a limitation of the tax advantages for each child and threats to retirement plans have made the change on the Rue de Gramont now appear to be worse than the former constancy. Before summer, however, this fear of sameness had shifted a number of professionals' votes to the candidates on the left. Through exasperation any chance to say no was a good one.

The targets have changed color but the goals are still the same: Professionals believe that they are the "damned in the crisis." Since 1975 their actual income has decreased and they are back to their 1972 purchasing power. The 1970 level could be reached this year.

The confederation decreed a "general alert" for its members. It intends to sensitize public opinion to the "now evident risks of a serious deterioration in the social and economic situation." On 28 January 10,000 professionals will meet at the Jean-Richard column at the Partin entrance to Paris to hold a massive demonstration of their "desire for change."

"The Socialist Government has perhaps not initiated measures against professionals, but it has made them worse," said Menin. "To be attacked with friendship doesn't make it any better."

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The draft of the laws on the workweek, prepared by Jean Auroux, minister of labor, contains a clause which says that the scheduling of hours in each firm must be approved by unions representing half the workers.

"That is a veto right granted to the CGT [General Confederation of Labor]," protested Paul Marchelli, general delegate of the CGC, last week. "We will react vociferously if the text is not changed."

An analysis of the 6 months of Socialist rule does not of itself explain the hardening attitude of the CGC. Other elements played a role, especially the more and more pressing intervention of union chapters on behalf of change to the opposition.

On 20 November, the day before the confederation board meeting, almost 4,000 responses to an internal questionnaire were placed on the president's desk. This X-ray of the morale of CGC members called for extending no more goodwill to the survival of the administration's "state of grace." Of 100 replies, 81 characterized the economic and social situation as "worse" and 90 believed it "more unfavorable to professionals."

As for the CGC's action since the elections, members judged it "too soft" (50 percent), "bad" (33 percent), and "not very satisfactory" (32 percent). However, 30 percent consider it "appropriate."

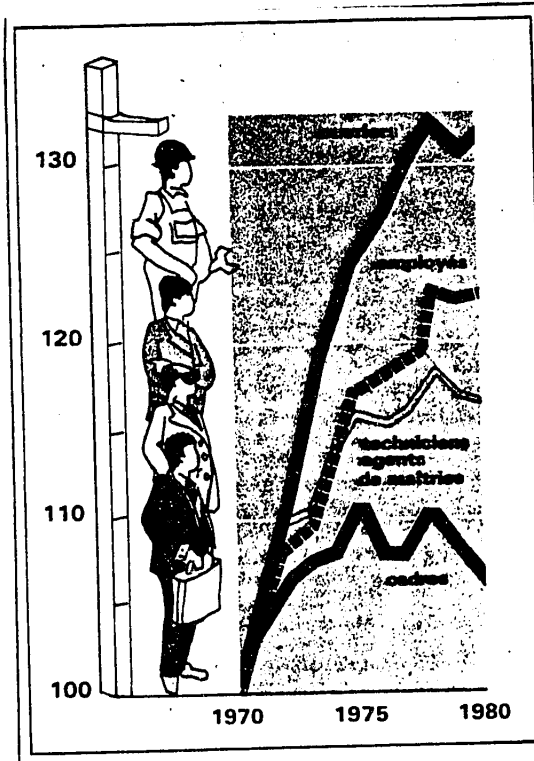
A survey of the professional population (unionized or not) done by Cides in September at the request of the CGC indicated the pessimism of this social category. Professionals denounced a "Swedish evolution." Above a certain level, 21 percent of engineers, administrative personnel and foremen would refuse any more responsibilities; 12 percent would go abroad; and 8 percent even foresee the possibility of working on the sly.

At the end of November, a report published by the Center for the Study of Income and Costs (CERC, which is subject to the planning department) gave a true indication of the restraints felt by professionals: In national averages, the relation of actual income of worker households to professional households is only 1:2. The relation of net salaries 10 years ago was 1:4.5 (see chart).

"The policy of equalization is only getting worse," said Charles Maral, president of the Syndical Union of Managing Professionals. "The image of privileged upper level professionals is completely outdated, but his image continues to justify the measures taken against them."

In the longrun, new burdens on the managers and professionals could lead to a voluntary flight from nonremunerated responsibilities.

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The change in purchasing power of the net salary according to job category. Every category underwent a decline in 1979 with the "extraordinary 1 percent" which was added to the normal Social Security deductions. This drop was overcome 1 year later for the lower salaries, but professionals' purchasing power has fallen to its 1972 level. The differences shown on this graph are only for net salaries. They are even greater for actual income, after taxes and family allowances.

Key:

1. manual laborers
2. employees
3. technicians and foreman
4. professionals

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ECONOMIC

FRANCE

TAX POLICY TO AFFECT SAVINGS, GOLD PURCHASE, INHERITANCE

Paris L'EXPRESS in French 14 Jan 82 pp 68-73

[Article by Agnes Rebattet: "Your Money in 1982"]

[Text] An obsession with devouring taxes; chaos in savings? It's true. Savers are entering a crucial year. L'EXPRESS presents and explains "plans" for everyone.

A veritable rush--during the last half of December the French hurried to bank windows to buy Monory SICAV investments, an effective way of deducting 5,000 francs from their taxable income. In all, 7 billion francs will have been invested in these stock exchange securities, which are managed by Variable-Capital Investment Companies (SICAV). A record.

This avalanche of last-minute orders created huge traffic jams at the Paris stock exchange. However, the day after 10 May last year, estate managers all predicted: "The tax advantage of the Monory SICAV investments will never hold up under the uncertainties of the financial market," an opinion which held true until mid-December. Then, savers, attracted by the immediate advantage of a tax gain, worried little about the future of this invested capital. This attitude says a lot about the fear which the tax collector strikes in the French middle class. It is also a sign of confusion: 1982 will be a turning point for many reasons.

The Socialist government's policy is ambitious. Reducing unemployment--its primary goal--will take place through a massive emphasis on industry, and therefore, on productive investments. Such a program means an increased appeal for savings.

In addition, the Left, as Francois Mitterrand and Pierre Mauroy recently pointed out, intends to reduce inequalities through taxation. The upcoming fiscal reform will upset the spectrum of investments. The findings of the commission "on the development and protection of savings," under the direction of David Dautresme of the Credit Lyonnais, will be submitted next March. What to do between now and then? Will fiscal credits and the Monory advantages be maintained, or replaced with other measures? Will the stimulus to save be stronger as income is lower, as economist Pierre Uri hopes.

There are many unknowns. Any change in the taxation of an investment will have a substantial effect on the market. That was shown in 1978 when the Monory SICAV

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investments brought a million new stockholders to the Paris stock exchange, with a detrimental effect on savings and loans. The government will be hard put to avoid this problem. But there is another, more serious one to consider: the rate of household savings is decreasing dangerously. It has gone from 17 percent in 1979 to 14 percent today. Under these conditions, how can a sense of savings be reinstalled in the French? It is better to seduce than to force. As a candidate for the presidency, Francois Mitterrand understood that well. "Savings will be strongly encouraged," he said, and continued, "the reform of financial channels will allow French savings to be directed toward investments which are considered high priority by the Plan." If the gentle approach doesn't work, then there is "the unpopular forced savings" that raising taxes signifies. However, this is not always the best solution. The extraordinary tax for those with income taxed at the 60-percent level and the levy of up to 1.5 percent on wealth are measures that should reduce the savings ability of those who own the most. However, "it is well known that the rich are the ones who make the market," explained one estate manager, "the others follow...."

The Upheaval

The 200,000 Frenchmen who are taxed on wealth and the 1 million most highly taxed households will find it difficult to maintain their purchasing power; thus, they will be particularly interested in any investments which are liable to provide them with additional income. They will therefore be more concerned with the annual return on their investments than with the long-term increase of their estate. In order to pay their taxes in 1982, some will have to liquidate part of their possessions. The more worried ones are already selling their second homes.

This upheaval began the day after the elections. On 11 May the stock exchange collapsed and lost 30 percent. This was an indication of distrust toward the Socialist government, but above all a fear on the part of stockholders of nationalizable firms that they would be cheated. The slightest rumor caused overreactions. Clients were seen rushing to the banks to take their anonymous bonds, diamonds, or gold from their safe-deposit boxes. The word had spread that the administration would open all safe-deposit boxes. Jacques Delors, minister of economy and finance, tried to calm everyone and promised, like his predecessor Rene Monory, that everything would be done to encourage long-term savings. It was a futile effort: the government was embarrassed in September when it introduced two poorly received measures. It changed the rules for deposit accounts and abolished the anonymity of gold transactions--two investments dear to the French because of their good resistance to inflation.

Deposit accounts: Frenchmen who had 100,000 francs could place them in special short-term (1 month) bank accounts and freely negotiate the interest rate. Yield: 16 or 17 percent gross, or 12 percent after taxes. This was an ideal short-term investment. (It accounted for 100 billion francs.) Delors put an end to it. Henceforth, only investments of 1 year or longer, or investments of very large sums (over 500,000 francs), can be freely negotiated. All others are limited to an interest rate of 3.5 percent. By 1 October, for example, this measure had resulted in the withdrawal of nearly 6 billion francs from the BNP [National Bank of Paris]. But the bankers have found a way around this. After all, you only have to group clients together to surpass the fateful sum of 500,000 francs. And there already is such a framework that has been in place for 2 years: The Common Investment Fund (ceiling fixed at 100 million francs). The variation will be called the "Common

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Treasury Investment Fund." Instead of being invested in various stocks, the funds will be directed toward short-term (1-2 year) bonds and to variable rate bonds.

"Variable rate bonds have a significant advantage: they are indexed to the money market rate or to the rate of state loans," explained stockbroker Alain Ferri. Thus they adapt to variations in the interest rate. One example: The Vive Oblivar fund, administered by Ferri and created on 1 October, has already gained 18 percent, or 13.5 percent after taxes.

The savings banks have fallen victim to these new approaches. Although they were supposed to benefit from the measures to encourage mass savings, they have once again been slighted. Already, in 1980, families directly affected by the crisis and by unemployment had to draw on their "rainy day savings." After a record surplus (7 billion) in the passbooks of the national savings bank in October, enthusiasm fell swiftly. In 1981, passbook savings (314 billion) increased only 13 percent, not even at the rate of inflation. The most prosperous households were tempted by the new, more advantageous investments, such as variable rate bonds or state loans. "The one in September was well received by our clients," said Jerome Pichard, general delegate to the National Union of Savings Banks of France. At 16.75 percent, it guarantees an exceptional return: for an average investor, who subscribes about 18,000 francs, and taking into account the fixed abatement of 3,000 francs on bond income, the yield is 2.5 percent higher than inflation.

The best shelter and an old French passion, gold, also received a shock. In order to discourage this "unproductive" investment, the government last September put an end to one of its most irresistible attractions: the anonymity of transactions. "You can't catch flies with vinegar; every time an attempt is made on market freedom, the French take cover," commented a stock exchange regular.

So we will certainly not see the napoleon or the gold ingot reappear in productive channels. A black market has already organized, and transactions are taking place there to such an extent that the official market has collapsed. The ingot, after having reached its peak (99,485 francs before the election), stabilized in December at around 74,000 francs. The napoleon went from 900 francs at the end of May to 700 francs. Loans indexed to gold are following the decline, especially the 1973 4.5 percent (ex-Pinay), whose Treasury reimbursement price is 18 percent higher than its stock exchange value at the end of December. "I avidly recommend it to my clients for paying inheritance taxes," said a notary from Seine-et-Marne.

Sizable Estates

Taxes have become unbearable for certain large savers, especially since they cannot take refuge in real estate as in the past. The price levels and the cost of construction credit have discouraged those interested. In 1980, construction investments caved in, and this tendency is increasing. "To go into debt at 18 percent for 5 years is madness. By the time the fifth year comes, you've paid the amount borrowed one time over," explained a real estate agent. Few are tempted unless they anticipate a rate of inflation higher than the current interest rate.

Placed in the impossible situation of [having to] buy their principal residence, savers are resorting to leisure-time real estate: winter sports or seaside efficiencies. For those who already own property, the proposed new measures are hardly

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encouraging them to invest further. Until now, the yield for renting was about 5 percent before taxes. It wasn't much, but it was only necessary for the capital investment to increase each year. With the ceiling on rents, the reinforcement of renters' rights (Quilliot law), and the abolition of housing tax advantages, investors fearfully await 1982. But will the price of real estate go down? The government hopes so. But in waiting, housing construction is liable to suffer.

What is left for sizable estates, since neither the traditional shelters nor real estate is beyond the reach of the taxation department? The forests? Taxwise, this has been less certain since 19 December. An amendment to the 1982 draft finance law includes certain types of forest groups in the tax assessment on estates. This measure is contrary to forestry policy, because investors divert about 500 million francs to the forests through group shares.

The only exemptions to the tax on wealth--art and collections--are benefiting from this situation by a significant appreciation. Prices have climbed. One example is original illustrated books. "Romantic books weren't worth 200 of our present francs 20 years ago. Today a Grandville (a well-known illustrator) can be worth 5,000 francs!" sighed one collector.

All of these changes have disconcerted the saver. But they have answered one precise worry of the administration: to direct Frenchmen's money toward long-term investments--a policy which should first strengthen the stock exchange. But what will the stock market be like tomorrow?

Nationalization has withdrawn one-third of the negotiable stocks (35 billion francs), while at the same time activating the already large bond market. But, determined to procure fresh money, thanks to the bond market, the private and public sectors are liable to get into a fierce competition which will have no real benefit for the investor. In addition, with the colossal imbalance between bonds (700 billion) and stocks (150 billion), "the stock exchange will be a disappearing tradition," said Yves Flournoy, the agent of the Stockbrokers Company

The government commission is considering ways of directing savings toward venture investments. In order for those who invest by buying stocks to be encouraged, however, they must be granted a tax credit. But a tax advantage will not be enough. In order for the faithful but fearful saver to be tempted, he must first be assured that he will receive dividends each year. And this assumes that private firms will make a profit.

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ECONOMIC

ITALY

EFFECTS OF LABOR COSTS ON INDUSTRIAL SECTOR

Milan IL MONDO in Italian 15 Jan 82 pp 41-42

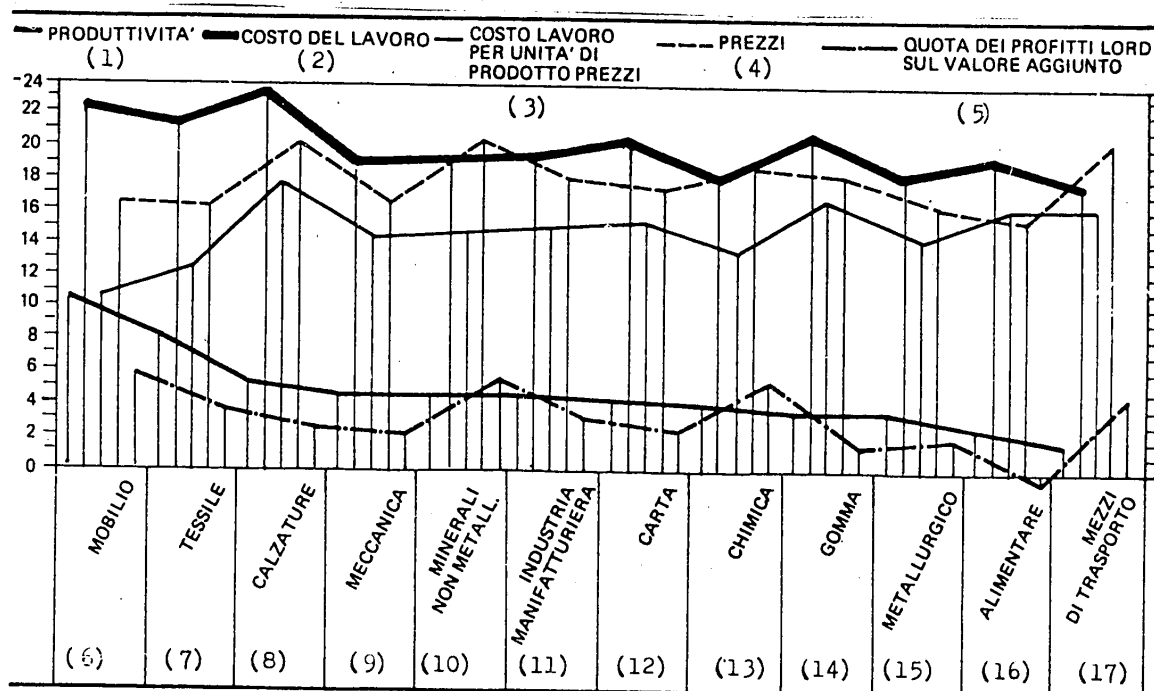
[Article by Antonio Ramenghi: "Who's Manufacturing Inflation?"]

[Text] The cost of living index creates inflation, and the productive sectors spread it. But there are large disparities. An unpublished study has run them through the computer, one by one.

The Oscar in productivity goes to the home furnishings sector: 10.6 is the annual mean variation over the past 10 years, as compared with a mean increase of 22.5 percent in labor costs and a price increase of 16.5 percent for the rest of industry. Bringing up the rear is the automotive sector, with an average rise in productivity of 1.5 percent, an 18-percent rise in labor costs, and a 20.8 percent rise in prices. Even from this comparison between the two sectors we can draw several general considerations that apply to all 12 sectors covered: there is already a growing interdependence in the Italian production system between the cost of labor and productivity: it is no longer true that he who produces most makes the most money. Nor is that all. Pegging wages to the cost of living has as its effect the flattening of wage curves, not only within each sector, but clear across the board, with the effect of penalizing the more efficient for the benefit of the less efficient.

These are some of the conclusions to be drawn from the study conducted by the Research Center for Corporate Economics (CREA) at Milan's Bocconi University, into "The effects of rising labor costs on industrial sectors." The analysis, run by Franco Bruni, Emanuele Cairo, Sandro Frova, Angelo Rainoldi and Carlo Scognamiglio, covers the last 10 years, from 1971 to 1980. The purpose of the study, say the CREA research team, was not to come up with another proposal for tinkering with the cost of living index on top of the many already made, but to find out to what degree the various sectors have absorbed and spread inflation in the system through the interplay of prices and the cost-of-living index machinery. Theirs is a contribution designed primarily to provide clarification -- and the figures to back it up -- on the long-standing question of the cost of living index, and whether it is

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THE EFFICIENCY RATINGS (mean annual variations from 1979 to 1981)

KEY:

- | | |
|---|-------------------------------|
| (1) Productivity | (10) Non-metallic minerals |
| (2) Labor Costs | (11) Manufacturing industry |
| (3) Labor costs per unit of product price | (12) Paper |
| (4) Prices | (13) Chemicals |
| (5) Gross profit share of added value | (14) Rubber |
| (6) Home furnishings | (15) Metallurgy (steel, etc.) |
| (7) Textiles | (16) Food |
| (8) Footwear | (17) Automotive |
| (9) Machinery | |

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in and of itself, a cause of inflation, or whether it has merely helped in a perverse way to spread it.

One quick answer comes from the analysis of the data on the manufacturing industry as a whole: the deterioration in earnings records, say the CREA research people, seems to be attributable not so much to the rise in wages in real terms as to the built-in weak points in the structure that have marked the development of some of the key sectors of the industrial system: heavy dependence on production requirements from abroad, a very low level of financing investments out of corporate capital, technical, productive, and occupational rigidity, the inadequacy of strategies to respond to qualitative and quantitative fluctuations in demand, which adds up to a poor showing in the marketplace. This, we were given to understand, is clear indication that Mario Monti's proposal to strip the cost of living index of the external factors of inflation (the costs of energy and raw materials) would certainly be the most effective approach, the one that could restore some balance to the system. However, that says nothing about the political feasibility of the idea, or about the confidence that would have to prevail between management and labor, if only when it came down to deciding who should control the ups and downs of the relative prices abroad.

The sector-by-sector analysis gives us a clearer glimpse into the issue of who has benefitted and who has not benefitted by the current indexation of labor costs with one preliminary observation, derived from the horizontal graph, to wit: while productivity has shown average yearly gains ranging from 10.6 percent in the furniture sector to 1.5 in the automotive industry, labor costs have chalked up increases ranging from 23.9 percent in footwear to 18.0 in the automotive sector. This works out to swings of 9.1 percent in productivity along with only 5.9 percent for labor costs. And when it comes to prices, we go from an average rise of 20.8 percent for the automotive industry to 15.8 percent for food. This latter sector is the only one of the 12 surveyed showing a negative mean value for the share of gross profits on an added value of 0.4 percent. This makes food the only sector that has not managed to tack the unit cost of labor onto its prices. Those that did pass on their increased costs in their prices, thus becoming the flywheel, rather than the mere transmitters of inflation are two: the automotive industry, and the chemical sector. For the former, the slump in demand, low productivity and structural rigidity combined to prevent the companies from absorbing the inflationary thrust from the cost side. So the companies passed on not only their increases in labor costs and other production factors, but even their higher fixed costs deriving from their productive rigidity.

In chemicals, on the other hand, the strong inflationary pushes seem to stem primarily from their heavy dependence on foreign sources for their manufacturing processes, which has sent import prices soaring. So if on some imaginary blackboard we were to divide the sectors into good ones and bad ones, the result would come out like this:

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Who Has Spread Inflation: As you have seen, it is primarily two sectors: the automotive and the chemical.

Who Has Been Hit by Inflation: in addition to the food industry, as we have seen, the ones that have absorbed inflation at the expense of productivity and of the companies' financial position were metallurgical and non-metallic minerals.

Who Has Offset Inflation: these are the sectors that have struck a kind of inner balance sufficient to absorb inflationary thrusts themselves, without spreading those thrusts through the economy: textiles, shoes, home furnishings, machinery, rubber, and paper.

The CREA analysis concludes with a simulation which, while not intended as a proposal, does deserve credit for showing us how putting the COLI on a quarterly basis is, in and of itself, a source of automatic price rises. They started with the assumption that the COLI was adjusted only once a year between the end of 1976 and the end of 1980. Well, if the cost of living index had been adjusted only once a year over that span of time, the rise in prices would have been 52.9 percent, rather than what it has been -- 69.2 percent. And that proves that when compared with adjustments at year's end, the quarterly adjustment in the indices automatically feeds the inflationary push.

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ECONOMIC

ITALY

OPINIONS ON DEVALUATION OF LIRA

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[Interviews by Davide Paolini with Budget Minister Giorgio La Malfa and by Giulia Giavi with foreign exchange experts, plus commentary by Mario Sarcinelli, deputy director of the Bank of Italy]

[Text] What sort of year will 1982 be for the lira? A lot of companies have made allowances in their planning for further devaluation of the lira. But will our currency really keep on declining in value? And if so, by how much? IL MONDO asked that question of financiers, businessmen, experts...

Two official adjustments of parity within the European Monetary System (EMS), sharp depreciation vis-a-vis the dollar, and of recent months another slide vis-a-vis the mark. On the whole, 1981 was a rotten year for the lira. And a lot of companies have written predictions of further devaluation of the lire into their plans and forecasts for 1982. And yet, 1981 did bring some progress on the inflation front, which is ultimately where the steady decline in the value of Italy's currency comes from. The price increase was smaller than in the preceding year, and the government has staked its credibility on the fateful threshold of 16 percent for 1982.

The cornerstones of the government's policy -- reducing the public debt and labor costs per unit of production -- have yet to be truly tested. Meanwhile, in the other European countries, with the complicity of the recession exported by the United States, prices have already slowed their rise, raising the spectre of restoring a conspicuous differential in inflation for Italy and renewed troubles for its currency. For an analysis of the lira's prospects in so complex a time, IL MONDO conducted a broad survey with the participation of international exchange experts. After an interview with Italian Budget Minister Giorgio La Malfa, in which we cover all the variables in government policy which affect the currency, we talked with bankers, financiers, and leading industry figures, asking for their views.

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La Malfa: "Let's not repeat the mistakes of the past"

Davide Paolini: The western countries are faced with the longest recession since the end of WW II, and for the moment there are no signs of recovery. The international economic situation does not seem propitious for rosy forecasts. What do you think of it?

Giorgio La Malfa: The gravest danger is that the international recession may stretch on and on, particularly in the United States, where it is deeper now than the government had predicted a few months ago. For one thing, it is no help to prospects for recovery to have so much uncertainty surrounding the direction economic policy ought to take in countries, like the United States, where debate inside the American administration indicate that no firm orientation has yet been achieved. This continuing uncertainty may well lead to a prolongation of recession conditions. The picture in the other countries is affected to a large degree by what happens in the United States and Germany, both countries whose prospects are not encouraging. It is likely, even so, that 1982 will bring us the beginnings of recovery on the global level even though of course the whole outlook is darkened by the uncertainty arising out of events in Poland and their future course.

Question: But if no country adopts a policy of rising demand, thus becoming the locomotive for the other economies, 1982 will be just as black a year as the one just ended.

Answer: I am convinced that during 1982 there should be at least a start toward recovery, both in the United States and in Germany. One positive factor in the 1982 picture, though, should be the stability or even a slight decline in crude oil prices.

Question: Stability or decline in oil prices, though, might slow imports by the OPEC nations from the OECD countries, and those imports were one of the few bright spots we saw in 1981.

Answer: I do not yet have the firm estimates of the trade surplus between OPEC and OECD countries, but I believe it is still holding, to the point where it won't trigger any freeze on international trade.

Question: Even if the world economy begins to move again, Italy's problems will still be fairly serious: the zero growth rate assumption has already had to be adjusted downward to - 1 percent.

Answer: The estimates for Italy still remain at zero for 1981 -- or in other words, at the stagnation level, even though the figures on industrial production for October show a fairly sharp drop by comparison with those for the same month of 1980. As for 1982, we noted in our forecast and planning report that there might be a trend of sorts toward stagnation, with a gross internal product [GIP] more or less the same as last year's. We also noted the possibility of growth as high as 2 percent over the year, in response both to the evolution of domestic economic policy and to the international situation.

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I am still confident that a recovery of these very modest proportions will be possible, but it is important to bear in mind the fact that any rougher push might fire up the deficit in the balance of payments which has just in the past few months been showing signs of easing.

Question: You still think the 2-percent goal is possible in 1982, but the steady decline in long-term investments would seem to indicate otherwise.

Answer: What we have here is in part a physiological reduction following 2 years of very high investments. Further, it would be surprising if there were not a drop in investments with interest rates running at 25 to 30 percent. We are looking at a decline in investments which is an expression of a period of recession.

Question: Is that 6-trillion-lira investment fund you have set up to be used for hastening recovery and breaking out of the recession?

Answer: The idea is to spend the 6 trillion -- 4 trillion of it in 1982, as underpinning for recovery. A modest slice of the fund will go towards restoring the state participation companies and the Industrial Participation and Management Company (GEPI) to health, 2.5 trillion will go to energy and technological innovation, and 2 trillion to the special lending institutions to finance expansion programs of corporations in sectors yet to be chosen, which might have a salutary effect on employment. The end goal is to aim at patterns of support for production of investment and industrial products through public demand, as has been done in France. Here in Italy, we have always used the state's financial power as an element of support for individual incomes.

Question: Your program was rejected, though, by the Interministerial Committee for Economic Planning (CIPE) when the economic ministers met on 23 December.

Answer: The concern of many ministers was with holding off from pre-determining either the criteria for projects eligible for financing or the areas of intervention, which would have made the whole operation clearer and more understandable. Just now gaining in favor is an effort to use the fund as a reserve to cover financing for the most pressing needs of this or that sector or for the super-greedy state participation companies.

Question: Isn't there perhaps a danger that once the first signs of recovery appear, the country will start up with a very high rate of inflation, which would generate extreme pressure on prices?

Answer: The risk threatening the Italian economy when recovery comes, either in response to international demand or in response to domestic demand, lies precisely there. If at that point the inflation rate has not been brought down to reasonable levels, even before it begins to show a healthy effect on investment and employment levels, it will

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show them on the inflation rate and on the balance of payments. So we may well fail to see even the strong recovery of 1976, after the 1975 recession, because the Bank of Italy would be forced to choke off the recovery even before it had a chance to get under way. This is why it is so vitally urgent to get measures for controlling inflation in place, along with agreements on budget and labor cost policies, which ought not to be confined to 1982, but extended to cover all of 1983.

Question: You talk of agreements on the budget, but your 50-trillion-lire ceiling for 1982 begins to look like an impossible target: there is talk of 57 to 60 trillion.

Answer: If people are afraid that the public deficit will top 50 trillion, then the only thing to do is to put it under limits as of the beginning of 1982, make projections on an annual basis to see how things are going, and step in with legislative remedies to lay down regulatory restraints on current spending to hold it below the 50-trillion ceiling. Besides, when Giovanni Spadolini said that the 50-trillion constituted a political objective, there were those who interpreted the word "political" in the pejorative sense, whereas the prime minister meant that the ceiling must be kept on by using the tools parliament has ready to hand. And I believe that the road we must take is the one that leads to holding down spending rather than increasing revenues. To perform this operation we have built-in mechanisms contributing to increased current spending (health, welfare, some labor costs in the public sector) which must be brought under control, if necessary by amending the laws from which this kind of spending arises.

Question: In short, you are not all that pessimistic about 1982.

Answer: I am sure that 1982 will not bring a worse crisis than 1981, or rather that it will not bring new factors into the reckoning. My conviction is that in 1982 we shall see the start of a recovery process, and I look with some trepidation only at the temptation to toss caution to the winds and go all-out for any kind of support for employment and demand. This would have the same consequences as those that followed the turnaround of economic policy in the second half of 1975 when, under the pressure of demands very like the ones we are witnessing right now, we allowed a sharp decline in interest rates, permitted the public deficit to rise very swiftly, and as a result in 1976 inflation zoomed to 20 percent, and the lira plunged to traumatic lows -- and on top of it all we had early elections. The situation may well be worse right now than it was in 1976: which means that policies like the ones adopted in 1976 would have even shorter-lived impact, since a lot of people are beginning to look too longingly toward early elections, it would be necessary to bring the situation slowly under control again.

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The Italian Experts: "The mark will leave us in the dust"

(Luigi Coccioli, president of the San Paolo Banking Institute in Turin)

All the top economic forecasting outfits are in substantial agreement in shifting their prognosticated date for the turnaround in the economic cycle for the leading industrial powers to some time after the start of the second half of 1982. In their view, the first half of this year should bring some kind of truce on the exchange rate and trade books fronts. The trick, though, will be to size this hiatus of relative slowdown in imported inflation and use it as a temporary coolant for the domestic inflation rate. Only under these conditions will we be ready to take our proper role in the international productive recovery now predicted for the closing months of 1982, which will clearly bring with it renewed tensions on the international currency markets.

The paradox in all this lies in the fact that at the very moment when there is a first glimmer of light on our export horizon and hence some practical possibility of an improvement in our balance of trade, there will be renewed pressure from domestic inflationary factors: so what we must deal with here is not merely waiting to see whether or not the prime minister succeeds in pulling his rabbit out of the hat, as the INTERNATIONAL CURRENCY REVIEW put it ironically in its November issue.

Where we stand now, the sole fairly solid point of reference we have in the international financial context is the Brussels agreements on the EMS. The EMS is a crawling-peg system, and as such represents a kind of middle way (today the object of general hopes in international financial and academic circles) between the fixed parity system of Bretton Woods and a policy of totally free fluctuation in exchange rates. In such a system there could be no parity set which would exceed the internal inflation differentials. This element of certainty in relative prices among member countries is, in my opinion, a truly strategic factor to encourage product marketing policies on foreign markets by our industrial corporations. It is, furthermore, the best possible guarantee against purely speculative ups and downs on the currency exchange market.

Insofar as I am concerned, I should like to underscore one point: San Paolo's decision to seek loans in European currency units (ECUs), by pioneering a road which you will see other Italian banks gladly following, was dictated precisely by its concern with assuring less risky and less costly financing to Italy's export-oriented companies.

Luigi Lucchini, president of the Brescia Industrial Association)

To get a fix on how the lira will do in 1982 you must predict the performance of the Italian economy. For instance: will Giovanni Spadolini (or his successors) manage to keep their 16-percent ceiling on inflation? I think it would be a lot easier to win the soccer pool than to answer that question. Personally, I hope that inflation will

stay below 20 percent. I do not see anywhere either the men or a policy in a position to force the economy into a U-turn. Under these conditions, industry here is living from one day to the next, held to very tight margins to keep their year-end figures from disaster. You really cannot run 26 percent into debt to pile up margins while you hope for devaluation of the lira.

Vittorio Merloni, president of Confindustria

Performance in 1982 will be intimately related with the 1981 track record, and that is altogether normal in economic behavior. In our country, 1981 was a year of missed opportunities. We wasted the first half of the year arguing about whether or not to concentrate on containing inflation, and the second half on arguing about how to do it. The ups and downs of foreign currency exchange are strongly affected by the expectations of international dealers -- be they bankers or not. Even though the general opinion abroad is that our country does best when left to its own devices, the international community looks at the inflation differential between Italy and the rest of the world, and at our official net reserves. On both these counts, Italy's position deteriorated in 1981 and it is to be taken for granted that the international financial community is aware of that fact.

In all likelihood the mark will gain ground against the dollar in 1982. Italy's membership in the EMS should tie us to the European currencies, yet our inflation rate is running well ahead of European levels. What will happen?

In no area of economic forecasting is there greater uncertainty than in predictions on exchange rates. I could not in conscience rule out the possibility of a realignment within the EMS sometime around the end of 1982 or in early 1983. Italy will not be the only member to feel the brunt of the mark's rise against the dollar, limited though that gain may be: in all probability, Belgium and France will feel it too. The EMS will probably hold an increasingly slack rein on Community currencies: that is the inevitable consequence of the lack of any real convergent economic and social policy on common, consistent objectives.

Nerio Nesi, president of the Banca Nazionale del Lavoro

Since the latest realignment (4 October) the lira has been relatively stable within the EMS, although it did decline slightly beginning with the last 10 days of November. Once again, the poor performance of the Italian economy has had adverse effects. The lira has declined, as a result, by 2.3 percent against the Dutch florin, and by 1.3 percent against the Deutschmark, which has itself shown a degree of gain even against the dollar. The lira has gained strength, though, against the Belgian franc (up 0.4 percent) which, owing to current political instability, is currently bringing up the rear in the EMS.

It is no easy thing to venture specific predictions on exchange rates, particularly over the short term. We all agree that there will be

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continuing fluctuation, brought about by interest rates and political events (the Polish issue is a case in point). This agreement on long-term forecasts counts on a degree of stability for the dollar, but with a trend toward weakness vis-a-vis the mark, the yen, and the British pound. As for the lira, there should be a sharp drop against the mark over 1982 (something like - 7 percent), from 538 lire per mark in the first quarter to 577 lire per mark in the final quarter of 1982.

Francesco Parrillo, Vice President of the Italian Banking Association

For 1982 the government's strategy aims at achieving 2-percent growth in the GIP and holding the inflation rate at an annual 16 percent by means of paring back the requirements of the expanded public sector to 50 trillion lire, containing total internal credit at 73 trillion, putting in place a public investment program designed to whip the production crisis, and reaching agreements on the delicate issue of labor costs. Aside from the uncertainty of the success of its anti-inflation strategy, another unknown has to do with the impact of the two devaluations of the lira approved in 1981.

In March the change in the central parity of the lira in the EMS (down 6 percent) was surrounded by such restrictive measures as the rise in the official discount rate from 16.50 percent to 19 percent and by other currency control measures; the steadily rising tensions in the European monetary system led to the latest realignment on 1 October, which resulted in a further devaluation of the lira (down 3 percent).

The effects of all this fiddling with the currency, coupled with a rigid monetary and credit policy, which also introduced such protectionist measures as the 30-percent non-interest-bearing deposit (27 May), were on the whole salutary from the point of view of relations with foreign countries, allowing a turnaround in the closing months of the year in the performance of the trade balance, of the balance of payments, and of the hard-currency reserves. Still to be found, however, is some way of cushioning the inevitable impact of devaluation on price trends at home in the medium term.

And so the current situation of productive stagnation coupled with inflation will leave no room -- should the stated objectives of economic policy not be reached -- for removing the current harsh monetary and credit restrictions. On the other hand, it does not appear feasible or advisable to engage in further manipulation of the exchange rates, inasmuch as, even though exports have got a healthy boost out of it, improvement in the trade balance can be attributed to the shrinkage in imports in response to the production crisis and the liquidation of inventories which, however slowly, will some day run out.

These, though, are improvements which do not warrant any immediate easing in the credit squeeze or any lowering of interest rates.

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Lucio Rondelli, managing director, Credito Italiano.

In 1982 there should be good opportunities for adjusting the Italian economy's foreign-side balance. These opportunities will arise out of the probable unrolling of the international scenario, which should see a levelling off, if not a decline, in the dollar price of crude oil, a halt, if not a turnaround, in the growing strength of the dollar which has been one of the prime causes of the skewing of our balance of payments in 1981, and lastly, a degree of recovery, after 1981's stagnation, in world trade, getting its main support from the OPEC nations.

So we do have the premises for a start in the next few months of a process of restoring equilibrium to the balance of payments, and hence we can expect to see some stability in the exchange rate of the lira.

Of course this evolution in the foreign variables must be flanked by consistent performance in our domestic variables -- particularly in our inflation rate. For the latter, furthermore, once we have this behavior on the part of the foreign-born inflationary factors, it ought not to be impossible to achieve that 16-percent target, at which economic policy is so determinedly aiming.

If that happens the competitive stance of our exports could be held for the year without having to stray outside the oscillation band the EMS allows us.

There might be some consolidation, profiting to some extent from a rise in domestic demand that bids fair to be lower than foreign demand, of the progress made in 1981 by our foreign trade in manufactured goods; and that could make possible, given a deficit in the oil imports balance which is expected to remain just about where it is, a significant reduction in our trade deficit (which might drop from the 20 trillion or so expected at the close of 1981 to 15 trillion).

The current balance of payments would see a drastic reduction, if not cancellation of its deficit: and from that would flow further support for the lira's exchange rate.

These prospects might turn out to be unrealistic, though, if the internal economic variables should behave in ways inconsistent with the need for a return to balance. The consequences would be grave, and not merely in the short term. One need only contemplate the dire possibility that should our country fail again in 1982 to bring its foreign indebtedness into line, and should it continue to show deficits on the order of those we had in 1980 and 1981, we should find ourselves with an accumulated 3-year deficit on the order of 30 trillion lire, and foreign indebtedness to match. The already substantial burden of the related capital costs and in interest would grow very much heavier, and lightening it would be all the more difficult should the favorable circumstances which, on the international economic side,

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appear to be taking shape -- though perhaps only temporarily -- in crude oil prices particularly-- over the next 12 months should fail to materialize.

Abroad, the Small Countries Will Be Going into Debt

A few days before leaving for the Christmas holidays the deputy director general of the Bank of Italy, Mario Sarcinello (recently empowered by Treasury Minister Beniamino Andreatta to monitor Italian recourse to international loans), summoned the directors of the major banks engaged in foreign transactions. Sarcinelli anticipated the Bank of Italy's forecasts on the nation's currency position in 1982; the balance of payments would show a deficit of 5 to 6 trillion lire as compared with 11 trillion in 1981; the credit squeeze will be held firm so as to avoid runs on the lira and so as not to pour oil on the inflationary flames: on the whole, there will be less need to turn to the international capital markets for loans, and that will slow the rise in domestic currency circulation.

Despite the fact that the outlook for 1982 is less alarming than 1981, Sarcinelli asked the banks to inform him of all loans to be negotiated abroad in excess of \$100 million. Approval issuance must follow a timetable set up by the Bank of Italy. This is necessitated in order to avoid a stoppage on the Eurodollar market like the one we had in the first half of 1981.

But just what chances are there for Italian banks and businesses to get loans abroad in 1982? In what form, and under what conditions? "The Eurodollar market," explains Alessandro Alessandrini, administrator of the Bank of Rome, "will show a smaller flow of petrodollars in 1982 because of the reduction in OPEC surpluses, which even in 1981 dropped from \$110 to \$70 billion." "Besides," adds the president of San Paolo di Torino, Luigi Coccioli, "some countries like Holland and Belgium which never used to seek foreign loans are now getting in line with the rest of us."

Italy, many international observers point out, has very high indebtedness today, second only to Brazil and Mexico, but in relation with its currency reserves (including gold), its GNP, and the value of its exports, it is still a good risk. Possibilities for new indebtedness are particularly good for financing needed for production plans and exports. "Loans for small imports," says Alessandrini, "are increasing so fast that nobody can keep track of them. This, if you will," says Ottavio Salamone, director of the Banco di Sicilia's main foreign loan office, "is our bread and butter. We make lots of so-called "silent" small loans [obtained from few banks, without publicity: Ed.], and we get the names of a lot of medium-sized but healthy companies out there on the international market."

In addition to financing exports, there is growing interest in financing imports. For that purpose Pietro Battaglia, president of Interbank, will accept credit lines from international banks this year for the first time. "These liability credit lines," Battaglia explains,

"aren't incentives to import; what they do is to make those imports indispensable to Italian industry less costly." The Interbank president will be engaging in 1982 for the first time in co-financing with the World Bank, advancing funds to projects abroad in which Italian firms are involved. The array of choices in foreign financing options is expanding, too: some banks, like San Paolo, the National Bank of Agriculture, and the National Bank of Labor are considering, for example, turning to the infant European currency unit (ECU) market (see below). "Another growing market is the one in certificates of deposit," says San Paolo's foreign loan co-director, Mario Mauro. "Yet another expanding form of financing," adds the director of the National Bank of Labor's main foreign loans office, Angelo Florio, "is in 'triangulars', the operations that make it possible to finance Italian exports from abroad." Sarcinelli thinks that official recourse to the international market on the part of Italian banks should come to \$1.5 billion in the first quarter of 1982 -- just about in line with 1981 (around \$6.5 billion) -- and then taper off somewhat. Conditions of indebtedness, according to the bankers IL MONDO questioned, might get slightly worse. The spreads, meaning the increases on the London interbank interest rates, will have to rise if they want to get, say, more loans from American banks, which are in a particularly exposed position on Italy.

A Better Bet: Ask for Loans in ECUs

[Mini-survey of banker opinions, by Julia Giavi]

Would it be wiser to ship our oars and incur debt in lire even at the high cost involved, or can we get our hands on some foreign currencies without running the risk of taking a huge loss in case the lira skids again on the exchange market? Attilio Bordogna, who since last October has been president of the Forex Club, the Italian exchange operators' association, is quick to note that it is no simple matter to make predictions at the present political juncture. "Poland and Israel are only the tip of the iceberg, hiding a lot more trouble down below." Having said that much about the international frame of reference, Bordogna points to the French franc as the foreign currency which in the next few months should behave most like the lira as a result of the economic policy adopted by the new administration under Francois Mitterand.

Alfonso Iozzo, head of research services at the San Paolo Banking Institute in Turin, likes the German mark, which was the topic of a recent seminar offered by the bank in the castle of Krönberg, a luxurious retreat just outside Frankfurt. At the seminar German and Italian bankers agreed on a favorable diagnosis for the mark, and found that the interest rate differential with the lira was, in short, adequate to cover the exchange risk. "The Germans," explains San Paolo President Luigi Coccioli, "are willing to finance both Italian exports and our tourist industry, in which they have particular interest."

"For the long term," says Iozzo, "we could also turn to the ECU, that market basket of EMS currencies that lowers the risk of sudden jumps or dips in the individual currencies." For the time being, however,

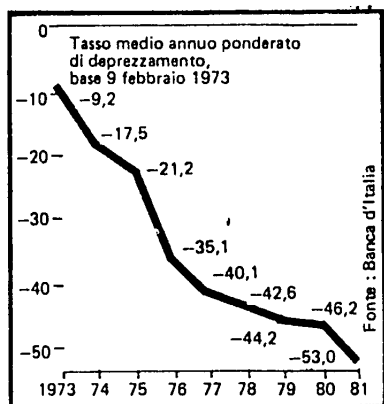
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very few operations are being handled in ECUs. Among the first banks to use this conventional currency was San Paolo, which, along with Credit Lyonnaise and the Crediet Bank of Brussels, has floated a loan of 30 million ECU (40 billion lire) on behalf of three Italian communes. Other Italian banks are beginning to busy themselves on that same ground, as well. The Banca Commerciale Italiana, the Banca Nazionale dell'Agricoltura, and the Banque d'Indochine et de Suez. Among the banks on the verge of picking up this option is Credito Commerciale. "The ECU affords good surety of stability," says Mario Foglia, who heads that bank's exchange office. "The banks don't give it enough publicity, though, because they still aren't quite ready to handle it: we still have too few operations, and as a consequence we haven't enough float."

For short-term loans and for those involving relatively modest sums, Foglia would pick the Belgian franc, in which some adjustment of parity is in the offing, even though Belgium's currency commands scalding interest rates (there is talk of peaks as high as 40 percent) steep enough to scare off a lot of shoppers.

Romeo Malacarne, who is director of the main headquarters of the Banca Nazionale dell'Agricoltura, agrees with Foglia. Malacarne, too, sees the ECU as a highly promising currency: "Especially when you consider that its 3-month cost runs at 15.75 points, which, when you add on the 1.30 percent for coverage of the exchange risk, gives you a total cost of 17.05 percent. That's still a lot cheaper than the dollar, which, when you count coverage, will cost you a total of 23.5 percent."

Ottavio Salamone, director of the Bank of Sicily's foreign sector, points out in addition that the American currency will be the star of the show in 1982. "This year again we are going to be living under a dollar system," he says. "Interest rates in the United States have already reached a minimum threshold. As they recover, along with the recovery in the American economy, the dollar will enter a new phase of strength in stability."



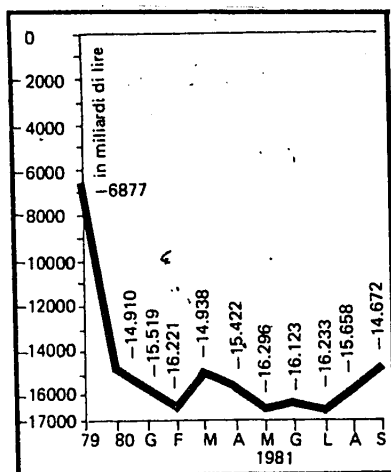
THE TRIBULATIONS OF THE LIRA

Abscissa: mean annual rate, weighted for depreciation.

Base: 9 February 1973

Ordinates: percentage decline in tens of percentage points.

Source: Bank of Italy



THE BANKS: FOREIGN DEBTS

Abscissa: 1979, 1980 [followed by]
1981, January, February, March,
April, May, June, July, August,
September.

HOW THE EXCHANGE RATE WILL BEHAVE

(Forecast exchange rates for the lira against leading world currencies.
Average quotations for each quarter of 1982)

(Source: Somea-Predex)

KEY:

(1) Currency:

U.S. \$

Canadian \$

French franc

Deutschmark

British pound

Japanese yen

Swiss franc

Belgian franc

Dutch Florin

Austrian

schilling

Danish krone

Valute (1)	1° trimestre (2)	2° trimestre (3)	3° trimestre (4)	4° trimestre (5)	Variazione % a fine anno (6)
S Usa	1.183	1.197	1.215	1.249	— 5,3
S canadese	955	950	952	959	— 0,4
Fr. fra.	194,5	191,6	196,6	200,1	— 2,8
Mr. ted.	518,0	529,5	548,8	575,4	— 9,9
St. Gb.	2.209	2.268	2.342	2.447	— 9,8
Y. giap.	5,50	5,74	5,94	6,16	— 10,7
Fr. sviz.	631,9	640,3	656,4	681,2	— 7,2
Fr. bel.	312,2	317,7	329,8	346,4	— 10,5
Fl. ol.	476,7	490,1	508,9	533,8	— 10,7
Sc. aus.	738,8	752,9	777,4	812,4	— 9,0
Kr. dan.	161,4	165,3	171,5	180,1	— 10,4

Fonte: Somea-Predex

(2) First quarter

(3) Second quarter

(4) Third Quarter

(6) Year-end variation, percentage.

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POLITICAL

ITALY

MAKNO POLL ANALYZES SOCIALIST VOTING TRENDS

Rome MONDOPERAIO in Italian Dec 81 pp 45-48

[Article by Mario Abis and Antonio Pilati]

[Text] A study of the socio-demographic composition of the vote is necessarily based on data: the only way to get an approximately accurate picture of the facts is to collect a lot of data, making sure, using various controls, that they apply precisely to well identified social situations and, if possible, a homogeneous structure (where hybridization among social strata is reduced to a minimum, and with it the possibility of multiple interpretations).

There are basically two ways to get this type of data about the vote. The first is an analysis of the results of the vote by small well-defined territorial divisions. If one selects voting samples from relatively homogeneous social areas (according to socio-professional status and cultural history) it is possible to get significant data about the composition of the voting electorate from different parties. These samples must be small, however (limiting sample size is the best guarantee of homogeneity, so one should work with very small sectors of communities), numerous, and well distributed throughout the country (so as to cover the most relevant social components of the vote). The second method is to collect data using the tools of empirical research about voting decisions and their distribution according to significant socio-demographic categories.

The problems this method entails are basically the neutralization of distorting attitudes, which are characteristic of answers regarding voting behavior (frequency of refusals and inclination to penalize parties which have a bad image even if they are really preferred; the influence of material factors which tend to be denied in unconditioned answers but which are very much present in the minds of voters; real uncertainty, etc.).

Once these distorting elements have been identified and dealt with this second method seems to be the most useful one in that it enables one to identify and classify samples rigorously. In this connection two surveys were made between 1980 and 1981 by Makno (a specialized institution on demoscopic research) in the context of its own socio-political observations; the results of these surveys provide valid material for analysis.

In the surveys, 2000 people were questioned. The two surveys were made in May 1980 and April 1981 respectively. In this article we present a series of elements

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identified on the basis of these surveys. A more in-depth analysis could be made by combining these data with a study (now in progress) about the election results from some homogeneous territorial divisions.

The Great Change

Data provided by previous studies about the composition of the vote by sectors makes it possible to approach the question of the socialist vote and provide a background for empirical data.

An analysis conducted by Pietro Corbetta in Genova, Bologna and Vernoia on changes in voting patterns in 1979 (published in MULINO, No 275) emphasize three principle elements for the PSI:

- a) The electorate varies considerably: in the three cities the faithful electorate (those who voted PSI in 1976 and 1979) range from a minimum of 65 percent (Bologna) to a maximum of 71 percent (Genova), involving a change in a third of the electorate. For the PCI the faithful vary from 83 percent (Genova) to 89 percent (Bologna), with a fluctuation of about 15 percent. For the DC the faithful oscillate from 79 percent in Bologna to 87 percent in Verona (with a fluctuation of less than 20 percent). The rate of change in the PSI is about twice as big as in the other two major parties;
- b) Votes pass back and forth from party to party over a wide range: PCI and PSDI [Independent Social Democratic Party] in the first place, then radicals, Christian Democrats, Republicans, new voters (there are fewer exchanges between the PCI and the DC);
- c) There is a tendency to lose ground in the "low" social strata (manual workers, craftsmen, the proletarian part of the tertiary sector) which is offset by gains in white collar sectors.

One element can be added to these data which emerged from a previous analysis: a tendency towards homogeneity in the vote on the national level, with the greatest progress in the south, where the PSI has been weakest historically.

Social Composition of the Vote

The first element that emerges from this is that there is a pronounced interclass evolution in the socialist electorate, especially in the latest elections, from 1979 on, in other words in elections held during the tenure of the new leadership established in 1976, which led to a vast renewal of the traditional composition of the PSI electorate. As the data on the issuing of cards show (see Table 1), the composition of the PSI has been mainly traditional until recently: manual workers, peasants, and persons not in the active labor force (retired persons, housewives) account for almost 60 percent of the registered party members. Of course the composition of registered party membership can differ significantly from that of the electorate, but for the most part it does indicate what the backbone or inner core of the party's electorate is.

The most recent elections changed this picture. There is a pronounced trend towards a mixture of classes which is even clearer in this case than it is for the two major parties.

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It is taken for granted by now that the large parties of industrial Western societies cannot be made up of a mixture of classes and be able to draw votes from every social stratum. The two major Italian parties fit into this picture too; nevertheless, there appears to be a strong interclassism in them. The PCI has a consistent membership of white collar workers and teachers (28 percent for the two categories according to Makno's latest survey) and a significant representation of craftsmen, trademen and professional people (13 percent according to Makno's surveys); nevertheless, the PCI is still anchored on the worker class, manual laborers being the largest category of its membership (together with peasants and the unemployed they make up 35 percent of the electorate of the Communist Party, according to Makno's surveys). This situation is somewhat analagous to that of the DC (see Table 2), whose electorate, although it is better distributed among various social categories, has a significant proportion of housewives (23 percent according to Makno's surveys) retired persons (18 percent according to Makno), and white collar workers (20 percent according to Makno).

Thus the class structure of the two major parties is unbalanced; the PCI leans towards a "mature" productive sector (manual laborers), the DC leans toward non-productive sectors (housewives, retired persons, white collar workers above all from the bureaucratic tertiary sector and the south).

The class distribution of the membership of the socialist party seems better balanced, with various social categories being represented in a fairly homogeneous way throughout the nation. The most significant data regard manual workers, which, according to Makno surveys, varies between 9 and 13 percent of the electorate (the figures presented in Table 2 include farmers, whose participation is estimated at about 3 percent). This percentage is not very different from that of the parties of the center, and is confirmed by a study made to confirm the hypothesis of Craxi, president of the council (see Table 6). This stabilization of the worker vote around one-eighth of the electorate seems to be confirmed by the limited concessions found by Corbetta in this area too.

White Collar and Emerging Strata

The second element that stands out from the Makno study is the strong progress made by the PSI with managerial and professional people and industrialists (10 percent in 1981, with a significant upward trend). The trend is specially pronounced in the north, particularly in the western part of the country, which--above all in 1980 when there was a slight regression--adhered to the Socialist Party with special loyalty.

Another significant factor is the large support among women: almost 20 percent of housewives (21 percent in the Makno survey of 1980, 17 percent in the Makno survey of 1981). This is indicative of the fact that the dominance of the Christian Democratic party among women is beginning to weaken (see Table 5).

The last and most complex element to analyze is that regarding white collar workers. This is a very diverse category which--according to the Makno survey--includes many and very different strata, including non-managerial personnel of firms, particularly persons involved in sales (agents, salesmen), teachers and government employees down to the lowest levels. It is useful to note that the socio-cultural status as well

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as the political orientation of these strata vary considerably. According to the Makno data this category, which is remarkably consistent in its support of the PSI--about 25 percent--has two principal areas of strength: the northwestern areas (this seems to indicate consistent support from persons employed by firms), areas in the south, and Rome (this seems to indicate support from the lower tertiary sector).

These findings coincide with those of Gianfranco Pasquino, who sees a predominance in the southern socialist vote of the rural petit bourgeoisie and of white collar workers (which seems related to some very personalized voting patterns made evident above all by the rapid growth of southern constituencies).

Some useful data can also be derived from samples made according to age group. As Table 3 indicates, there is a fairly clear preponderance of the less young groups: the 45 to 55 age group and the over 55 age group taken together account for more than 37 percent of the socialist vote. Only 16.5 percent of the socialist vote is accounted for by the youngest voters (15-24).

This is not surprising if we consider the issue in a general way: almost all parties except for the radicals (28.6 percent of the radical vote comes from the youngest voters) are shunned by the youngest voters; they are shunned even more by young people who do not vote yet. This confirms the fact that the groups which have entered the political life of the country most recently are the most likely to make a sharp distinction between politics and their own lives.

At any rate the greater support of older groups for the PSI is clear, and is more significant in the case of the PSI than it is for the other two major parties, which have fairly well consolidated support from this part of the electorate.

A purely political consideration should be added to all of this. The fact that the party which has changed the most drastically--as far as its image is concerned, too--has appealed so little to young people is somehow surprising. It is also interesting to note that the most representative age group in the PSI electorate is that of the young to fairly young (25-34, furnishing 25.6 percent of the socialist vote). This is also the most demographically consistent group and the most reliable source of new social issues and of the most significant changes in the economic and cultural structure of the country. No other party has such a large base among this age group. The DC gets most of its support from older people; the other, lay parties, are either homogeneous or are poorly represented among this age group.

The Class Structure of the PSI Electorate

In conclusion, the new electorate of the PSI can be described as follows:

- a) Integration of classes, with a substantial loss of the dominance of the proletariat;
- b) Consistent growth in the north among social strata associated with firms (industrialists, managers, professional people, skilled personnel);
- c) A broadening of the influence of the PSI among women, with major gains among housewives being important, but just one indication of this trend (as Table 4 about distribution according to sex shows, the 1980-81 series indicates a sizable increase

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in the female vote for the PSI, even though it is still smaller than the female vote of the other two major parties;

d) Strong representation of the fairly young age group but very low support from the youngest age group;

e) The capacity to attract votes in terms of trade-offs, especially in the south and above all in peripheral areas (alongside this factor it can also be assumed that the socialist party's progress in the south is largely due to a concentration of production there, both industry and commerce: Bari is particularly significant in this respect).

If any conclusion can be drawn from all of these data, which are still merely indicative and very general, it concerns the distribution of the socialist vote along class lines, which differs from the pattern noted in the Communist and Christian Democratic Parties: the two major parties seem to get the most support from unproductive (DC) and declining (PCI) sectors, whereas the socialist party has a more balanced representation among social classes, especially those who are in a position to contribute the most to development.

Postscript--This research on the socio-demographic composition of the socialist electorate is based, as we have said, on a comparative analysis of data collected in two successive demoscopic surveys conducted within the context of Makno's political studies. From an analysis of these empirical data a few preliminary considerations emerge which deserve further study using other instruments and other methods of social research. In the second phase of this study (which will be carried out in the very near future), emphasis will be placed on the methods described in the introduction of this article.

Analytically speaking, the methodology adopted provides for a selection of samples among electoral sectors which would be broad enough to cover all relevant social strata participating in the vote, but would be composed of units which would be small enough to be representative of a given group. In other words the researchers must create in vitro situations having only one variable (which one wants to measure the intensity of the effects of), after previously bringing all other variables under control so as to neutralize them. For each of these model sections/situations, in a given socio-economic context, an analysis will be made of the relevant voting history through the most recent elections (from 1979 on), so as to deduce further elements to be investigated using the hypotheses put forward at the beginning of this study.

The methods we have explained will enable us to complete the theoretical reference picture by comparing a quantitative analysis of the macro-universe with qualitative research concentrating on the micro-universe. The purpose of this procedure is obviously to meet the need or wish for coherent, reliable models for the interpretation of the socio-demographic composition of the stable socialist vote, the socio-demographic composition of the recent socialist vote (mobile or stable), and the composition of the mobile vote which may be inclined to support the Socialist Party.

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TABLE 1: 1979 PSI Membership by Geographical Area

<u>Geographical Area</u>	<u>Workers</u>	<u>Peasants</u>	<u>Craftsmen</u>	<u>Employees and Professionals</u>	<u>Other</u>	<u>Non- Professional</u>	<u>Total</u>
North	25.3	1.9	4.7	17.9	22.3	27.9	100.0
Center	25.6	4.1	5.0	13.9	20.4	31.0	100.0
South	19.4	5.4	5.6	12.2	24.1	33.4	100.0
National Average	23.3	3.6	5.0	15.1	22.5	30.5	100.0

(From A/CR/1, "The Membership of the PSI," by V. Spina and S. Mattana, Jan-March 1981, Nuova Guaraldi, p 63)

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TABLE 2

<u>Party</u>	<u>House- wives</u>	<u>Students</u>	<u>Professional, Ind. Mgt.</u>	<u>Craftsmen, Tradesmen</u>	<u>Workers, Farmers</u>	<u>Employees</u>	<u>Retired</u>	<u>Unemployed</u>
DC	23.4	7.9	3.1	8.6	16.0	20.6	18.3	1.6
PCI	11.9	6.3	6.3	8.3	29.0	24.4	11.0	2.5
PSI	17.3	14.3	9.8	7.5	15.8	24.8	9.8	0.8
Republican	3.2	16.1	19.4	6.5	9.7	25.8	12.9	6.5
Indep. Soc. Dem.	31.6	5.3	0.0	5.3	10.5	15.8	21.1	10.5
Liberal	13.3	0.0	26.7	6.7	0.0	26.7	26.7	0.0
Soc. Movement	16.7	16.7	16.7	11.1	11.1	11.1	16.7	0.0
Prolet. Unity	0.0	14.3	42.9	0.0	0.0	42.9	0.0	0.0
Radical	9.5	28.6	4.8	4.8	14.3	33.3	4.8	0.0

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TABLE3: By Age Group

<u>Party</u>	<u>15-19</u>	<u>20-24</u>	<u>25-34</u>	<u>35-44</u>	<u>45-55</u>	<u>Over 55</u>
DC	8.6	10.3	18.9	18.3	15.4	28.6
PCI	4.6	11.9	33.0	18.3	11.9	20.2
PSI	9.0	7.5	25.6	20.3	16.5	21.1
Republican	6.5	6.5	9.7	22.6	29.0	25.8
Indep. Soc. Dem.	5.3	5.3	21.1	21.1	26.3	21.1
Liberal	0.0	6.7	6.7	20.0	26.7	40.0
Soc. Movement	11.1	5.6	11.1	0.0	38.9	33.3
Prolet. Unity	0.0	14.3	57.1	14.3	14.3	0.0
Radical	28.6	4.8	38.1	28.6	0.0	0.0

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TABLE 4: By Sex

<u>Party</u>	<u>Male</u>	<u>Female</u>
DC	38.9	61.1
PCI	52.3	47.7
PSI	55.6	44.4
Republican	64.5	35.5
Indep. Soc. Dem.	52.6	47.4
Liberal	46.7	53.3
Soc. Movement	61.1	38.9
Prolet. Unity	85.7	14.3
Radical	47.6	52.4

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TABLE 5

PSI

Sex:	Male	Female	Male	Female
19 May 80	58.4	41.6	55.6	44.4
28 April 81				

Professional Status:

	Housewives	Students	Professional	Craftsmen	Workers	Employees	Retired	Unemployed
19 May 80	21.0	12.1	7.3	12.1	11.3	25.8	9.7	0.8
28 April 81	17.3	14.3	9.8	7.5	15.8	24.8	9.8	0.8

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TABLE 6:
Craxi president of council

Sex:	Male	Female	Male	Female
19 May 80	53.6	46.4	1 April 81	53.2

Professional Status:

	Housewives	Students	Professional, Ind. Mgt.	Craftsmen Tradesmen	Workers, Farmers	Employees	Retired	Unemployed
19 May 80	20.9	16.4	7.3	14.5	12.7	19.1	7.3	1.8
1 April 81	21.5	12.7	5.1	11.4	13.9	21.5	7.6	6.3

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POLITICAL

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PLI'S ZANONE VIEWS PROSPECTS FOR LAY PARTIES

Milan IL MONDO in Italian 15 Jan 82 pp 10-12

[Interview with Valerio Zanone, secretary of the Liberal Party (PLI) by Donato Speroni]

[Text] "This will be the lay parties' year." The bloc of four minority parties may well rise to strength equalling that of the DC and the communists. To achieve that, though, says the PLI secretary, a whole lot of things will have to happen...

Sitting in Montecitorio between the 261 Christian Democrat deputies and the 201 from the Communist Party are 138 deputies from the lay democratic parties: socialists, social democrats, republicans, and liberals. They have always been a cantankerous bunch, ever ready to trade accusations and vetos which have historically blocked their simultaneous presence in any cabinet.

Something changed in 1981, though. For the first time, the barriers toppled, and a five-party government was born, one which, in addition to the DC, included all four of the lay democratic parties. One of their own, Giovanni Spadolini, took over the helm of government. And -- another first -- there is a widespread impression that the four parties will be able to follow a coordinated line, which will free them from subordination by the DC or the PCI.

No small credit for this turn of events must go to Liberal Party Secretary Valerio Zanone, who has nudged his party away from its traditional conservative positions (winning a clear victory at the PLI's latest congress) and has settled it into a middle position among the lay democratic parties, seeking at every turn to encourage the emergence of a common outlook. His policy will certainly play a major role in the forthcoming trials awaiting the government, and in the achievement of new understandings among the parties. IL MONDO talked with Zanone about the lay-party outlook, about the meaning of latter-day liberalism, and about its prospects in Italy and in Europe.

Question: Last year was the year that brought us a lay-party prime minister, the congresses of the PSI, PRI, and PLI, and the full-fledged crisis in both major parties. From all these events, can one assume that the lay-party outlook in Italy is looking up?

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Answer: The growth of the lay parties is really only a prospect right now, a long-term trend which, if it is to continue, will call for restraint and consistent behavior. The four lay parties, in the space of a few years, can put together an area of overall consensus in no way smaller than that enjoyed by the two largest parties, but all predictions carry the caveat that, for them to prove true, a whole set of conditions must be met.

Question: What conditions are those?

Answer: First, the lay parties are entitled to move up only if they do not repeat the structural flaws of the big parties with their big apparatus. Second, the lay parties must demonstrate their ability to act pragmatically in dealing with the crisis in the mass and class ideologies, and hence in the two ideological parties. Third, the lay parties must prove their independence with respect to the compromise agreements with both; this would certainly be the time to remind people, in this connection, that the 1978 match between the DC and PCI ran into opposition among the parties invited to attend the wedding only from the Liberal Party. Fourth, the lay parties must work together with mutual respect for their respective identities. Collaboration among the lay parties must rule out from the start any notions about star billing or yens for hegemony which, if they are not to go on at the instigation of the stronger parties, there is all the more reason why they must not find encouragement in the weakest. These are all conditions that must be met, without any illusions as to the speed or facility of the process.

Question: In 1981, though, we also had the P2 scandal, and the continual poisoning of politics with real or alleged scandals. Do you think political ethics are still deteriorating?

Answer: There is more corruption in Italian politics than we hear about, but perhaps less than we think. Not everything is poisoned and polluted. Reclamation is possible if we steer clear both of a prurient taste for scandal and resignation to it, and if we tackle the problem of restoring ethics and morality on two fronts: strengthening our institutions, to strike at the roots of alternative fiefdoms; and putting more muscle into the instruments of control that can be put into play by our citizens.

Question: Specifically, what did the whole P2 affair mean, in your view, to Italian politics?

Answer: First of all, the P2 business is still unresolved. I have said all along that P2 is a case of power and money, of wheeling and dealing and of striving for success -- but there is more to it. There is a subversive core here which has not yet been laid completely bare, and which is held together by international strings. In an interview with Maurizio Costanzo in CORRIERE DELLA SERA, Licio Gelli said that he always wanted to be a puppeteer when he grew up. I believe that when we get to the bottom of this business, we shall find that Gelli is a puppet.

Question: Then who is the puppeteer?

Answer: That is something we still have to find out, and we hope that the P2 commission will be able to shed some more light on the whole business.

Question: Your party is perceived these days as a growing force; yet it is so small in size that it is perpetually at risk of being nothing more than a cultural presence. What are the scenarios in which you see a greater potential for growth for the Liberals?

Answer: We are at the end of a year, so this is a time for forecasts: I shall take advantage of that to put some numbers into the question. One could fairly reckon that in free Europe, liberals account (with sharp disparities among nations) for about 10 percent; I should say, on the basis of reliable surveys, that one of every 10 Italians has a more or less solid liberal commitment. One of my goals is to reach the point within a few years where at least half vote for the party that bears that name and that strives to represent those ideas. The slow recovery we have made, under all but prohibitive conditions, since 1976 demonstrates that for the Liberal Party the national average of 5 percent is not a wholly unreachable goal.

Question: Some of the main tenets of liberal thought would seem these days to have been adopted by many other political parties. How is latter-day liberalism different from social democracy? In other words, where does Lib. end and Lab. begin?

Answer: Once you peel off the partisan emblems, the question can be put in these terms: where does the right to individual diversity end and where does the obligation of getting along with one another in society begin? It seems to me that the factors of agreement between liberal democracy and socialist democracy are more numerous than are those that put them at odds. Remember, though: to each his own: for example, all the current wave of criticism directed against statism, against welfareism, against bureaucratism has undeniable liberal -- not socialist -- connotations. However, I don't see why liberals should be suspicious or worried if liberal ideas crop up in political circles other than their own.

Question: The welfare state is now going through a stage of dismantling or restructuring in a good many western countries. What about Italy? Don't you feel that all the parties, including your own, have failed thus far to come to grips with this problem with sufficient courage?

Answer: The imperative need to dam the ruinous expenditures of the welfare state is now widely recognized. If we really want to do the job, though, we must have legislative reform that will take at least 2 years to pass and implement; we can't do it with governments that survive only an average of 6 to 8 months. For this very reason, the Liberal Party argues the urgent need for a political entente among the

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five parties in the parliamentary majority behind a program and a government that will make good use of the second half of the legislature. The quest for such an understanding is point one on the political agenda for 1982.

Question: In other words, you see a relationship between the election returns and the agreement in the legislature and the fight against the welfare state. What, in practical terms, does that mean?

Answer: When we sat down at the table to talk about institutional reforms, with all our cards on the table, we realized that our first move must be to prevent the collapse of the state.

Question: What move is that?

Answer: There should by now be substantial cultural unity behind some reforms: changes in public spending procedures, intervention to ward off the collapse of the Social Security system (INPS), revision of the health delivery system reform, healing the schizophrenia between national policy and the behavior of local governments, and reform in the agencies that manage state participation.

Question: Who is to manage all this? A new government?

Answer: Well, yes: this one or another one -- that's the big question. As I see it, there is only one certainty here: there is no alternative to this coalition. If the five-party coalition breaks up, the legislature will pack up and go home. Once we agree on that, it is understandable that each party will have its own ideas, and that those who think they hold the right cards will decide to play the game. For that matter, even the prime minister has consistently underscored the token, temporary nature of this government. That sometime in the future another will take its place is in the order of things. But to say who is going to form that government, you have to be living in the Quirinale.

Question: The latter-day Liberals emphasize their social concern. In what way is this different from the attitudes of traditional liberalism -- say that of Luigi Einaudi or Giovanni Malagodi?

Answer: I can answer that with a quotation from Einaudi's "Lessons of Social Policy" or from the principles of social order in the manifestos of the Liberal-International conferences at Oxford in 1967 and Rome in 1981, both written by Malagodi. The new rationales for freedom, though, are coming out of the revolutionary swiftness of social change over the past decade. Today, the freedom to possess is secondary to the freedom of enterprise, to find work and change jobs, to express fully one's own personal initiative both on the job and in one's leisure time. New patterns of deprivation of freedom are also emerging: urban unrest, the spoiling of the environment, the swindle that is consumerism. Individual freedom must be affirmed in the face of the new bondage.

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Question: Is there still a place in Italy for battles for individual liberties in the liberal tradition?

Answer: On all too many occasions the citizen runs up against the state as an antagonist, a tyrant glassed in behind the little barred window. All our institutional policy, the reform of the state, is perceived by the Liberal Party from the citizen's point of view. The primacy in institutional reform centers on the primordial function of the state as the guarantor and executor of justice. The front line of defense of individual liberties and of juridical civility today runs through the courtrooms and into the prisons. All our experience goes to prove that the liberal state under law is not a heritage handed down by tradition, but a continuing process of evolution.

Question: The PLI some time ago lost its cozy relationship with the General Confederation of Italian Industry (Confindustria). Do you hope to get it back, and if so, how?

Answer: I have good relations with the president and the board of Confindustria, and there are some liberals in its executive bodies. The Party derives no privilege from that. I should be altogether content if next time Confindustria lets us use the EUR auditorium for one of our congresses, it would refrain from insisting that we reimburse it for minor expenditures.

Question: How would you describe the business and industrial bourgeoisie's behavior during the current phase? Is it still creative, is it purely defensive, or is it perhaps a vanishing class, being pushed out by entrepreneurs getting handouts from Brambilla?

Answer: I could cite you dozens of cases that prove the vitality of the free enterprise system. The roots of this recession are easily traced to interest rates, the rigidity of the labor institutions, and the appalling inefficiency of public services. Generally speaking, it is the behavior of government that places the free enterprise system in difficulty in international competition.

Question: What do you think of the recent public utterances of the most prominent private entrepreneur in Italy, Giovanni Agnelli?

Answer: Agnelli has argued vehemently in many circumstances for the need to allow business to plan ahead and make decisions in conditions of adequate institutional and political stability: that seems to me a perfectly legitimate demand. On the other hand, I most emphatically do not agree with the proposal to sacrifice Italian agriculture on the altars of the European community to big industry, which is what Agnelli seems to me to be asking for. Most important, the boundaries between those two sectors of the economy are increasingly blurred.

Question: 1982 may well be PSI Secretary Bettino Craxi's year. What do you admire in him, and what do you fear?

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Answer: I admire the way he has pushed the Socialist Party into a change of course. Insofar as I am concerned, I fail to see what I ought to fear from him.

Question: Of course, you have nothing at all to fear. But more generally? Craxi has been accused of arrogance, of bullying, of stooping to the same kind of precinct patronage as the DC...

Answer: If we were to look into the behavior of the parties that have spent much time in government, we should see that the use of power for patronage is not a prerogative enjoyed solely by the Christian Democrats or the Socialists. Yes, they do say Craxi uses platoon-style systems inside the PSI. But if we compare these socialists in the PSI with the ones we had in Francesco De Martino's day, crammed full of old-line ideological truisms and perennial losers, we are forced to say that Craxi has done a good job.

Question: What opinions would you give us about the other lay-party leaders? Just how does the way they play politics differ, for instance, from that of Giovanni Spadolini and Pietro Longo?

Answer: I am not clever enough to find a witty reply to that one, but if IL MONDO will take a bit of advice, don't cite Spadolini and Longo as "two examples of the same species." You might get one, or even two very angry phone calls.

Question: How deep is the crisis in the DC? Do you believe that party can get itself together and stage a comeback?

Answer: The will to shape up is there, no question about that: when all is said and done, there is no other political party that has called a public nationwide conference to find out where it had gone wrong. It is hard to see, though, just what direction its renewal is taking. There is a strong resurgence of religious motivations; yet in a highly secularized society a religious party would be doomed to a minority role. In other European countries the Christian Democrats have assumed the role of popular parties with moderate programs to counter the socialists: Italian Christian Democracy, though, rejects the moderate identity. There is of course leftist Catholic populism, but that lost much of its appeal when the historic compromise fell through. There will be other roads for the DC to travel; but for total outsiders, it is hard to discern them.

Question: At the Liberal Party congress, you came out with a platform containing no prejudicial positions toward the PCI. In light of recent events, what do you believe would be helpful and what would be pointless in a confrontation with the communists?

Answer: The coup in Poland has precipitated a historic crisis in international communism. Communism in Europe stays in power by force of arms, not by consensus. The threat of Soviet totalitarianism will go on stirring up ever-increasing protest all over Europe, and that protest will be both inevitable and legitimate. The PCI is on the brink:

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it has no choice but to jump: it must choose between Europeanism and pro-Sovietism, between human rights and reasons of state, between democracy and totalitarianism. Upon that choice will depend the confrontation between the PCI and the western-oriented parties in the years ahead.

Question: In the west we see the ever-clearer emergence of a conflict between American President Ronald Reagan, with his polarized world-view, and German Chancellor Helmut Schmidt, who favors an independent role for Europe in the dialogue with the east. To which of them do you feel closer?

Answer: Once we make it clear that there are some specific factors in German politics at work in Schmidt's position, I should like to say that the most important contribution Italy can make to international policy in 1982 is a renewed commitment to and drive toward the process of European integration.

Question: Aren't those fairly hollow words? We have heard them now for so many years....

Answer: We intend to deal with the problem on a practical basis, and in fact European integration will be the theme of the congress of the Liberal Democratic Federation to meet for the first time in Italy, in Venice, in May 1982. But we don't want to confine ourselves to talking about Western Europe. In view of the crisis in communism which can no longer govern in Europe by consensus, we must affirm the united and liberal character of European civic belief and custom. Because liberalism still lives in Krakow, in Prague, or in Belgrade, even though it is repressed. This is why I am convinced of the need for multiplying the occasions of encounter -- not with the USSR, but with the nations of eastern Europe. I have promised myself to go very soon to the German Democratic Republic to meet with the Liberal Party in that country. Even though it is a party supportive of the regime, it has its own demand for and claim to a specific identity which must be deepened.

Question: I seem to get the feeling, then, that as between Reagan and Schmidt, you would lean toward Schmidt...

Answer: Insofar as concerns relations with the countries of eastern Europe, of course. But it is clear that this process must never be allowed to challenge Europe's alliance with North American democracy.

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POLITICAL

SPAIN

POLLS INDICATE PSOE TO GAIN ABSOLUTE MAJORITY IN ANDALUCIA

Madrid CAMBIO 16 in Spanish 18 Jan 82 p 32

[Article by Juan de Dios Mellado: "Come On, Socialists!"]

[Text] If the voting were held now for the Andalucian Parliament, the PSOE [Spanish Socialist Workers Party] of Andalucia would win the absolute majority. According to the first opinion polls, the Communists and Centrists would be beaten by Rojas Marcos' Andalucists and Fraga's followers in Andalucia. Three different polls have had these results: one, of the CEOE [Spanish Confederation of Business Organizations], another prepared by a government sociological research department, and the third, a partial one, prepared by a political party which does not want to make the findings public.

The businessmen received the first results from Cadiz and Sevilla with great concern: The PSOE of Andalucia not only wins an absolute majority, but has a sweep, politically humiliating its adversaries. The only one saved from the burning is the Andalucist Party, which would win 15 percent of the vote, followed by Popular Alliance, with 10 percent; while Carrillo's followers would have to be content with 9 percent, and for the government party the debacle would be total, with a horrifying 5 percent. According to this poll, Manuel Clavero's party would not have any representation in Parliament.

The government poll shows an almost spectacular item of information: The Communist Party of Andalucia [PCA] would become an extra-parliamentary party in four Andalucian provinces, obtaining five seats out of the 109 that will comprise the Andalucian Parliament. The crisis among the Communists, despite Felipe Alcaraz's attempts at "mending," could underlie these poor results.

There are some colorful incidents in both polls, such as when Fernandez Ordonez was mentioned, and many of those queried asked: "And who is he?" The same thing might be said of the extra-parliamentary leaders and parties, such as Andalucian Unity, New Force in Andalucia, and Andalucian Communist Movement, which in no instance will attain results enabling them to seat a member of Parliament.

The Socialist 'Scare'

According to the government poll, with the 109 seats, the Andalucian Parliament would be comprised as follows: PSOE, from 55 to 60 seats; PSA [Socialist Party of

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Andalucia], from 22 to 28 seats; UCD [Democratic Center Union], from 18 to 22 seats; AP [Popular Alliance], seven seats; and PCA, five seats.

When CAMBIO 16 asked the Socialist leaders for their opinion of these results, they claimed not to accept them a priori, "although we are convinced that we are the leading political force in Andalucia." PSOE knows that it will be able to govern Andalucia as comfortably as PNV [Basque Nationalist Party] in the Basque Country. Francisco Oliva remarked: "We don't want to put our trust in these results either."

UCD Sounds the Alarm

The Centrist party does not attach the slightest significance to these results, although it sounded the alarm when Moncloa confirmed Perez Miyares and Carlos Rosado as the party's strong men in Andalucia.

Perez Miyares admitted to CAMBIO 16 that "UCD will continue to be the second political force in Andalucia; but at the same time we are striving to be the first."

The secret, in addition to the program and strategy which will emerge from the forthcoming regional congress, may lie in the tendency of the vote of the undecided, according to these polls. Forty percent of those polled have not yet decided whom they will vote for. Carlos Rosado, the UCD regional secretary for Andalucia, told CAMBIO 16: "This floating vote is the one that could cause a considerable change in the final results." The specification of the PSOE electorate is very definite, and almost the same might be said for Andalucists and Communists, although these two parties could lose votes to more radical areas.

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POLITICAL

SPAIN

LIBERAL PRESS APPLAUDS TOP MILITARY SHIFTS

Madrid CAMBIO 16 in Spanish 25 Jan 82 p 28

[Article: "At Their Orders"]

[Text] Two artillerymen, aged 63 and 61, a "sea wolf" from the Navy and a veteran aviator and helicopter pilot from the Air Force, and former tutor of the king, are the new officials serving as Joint Chiefs of Staff (JUJEM), the top-ranking position in the military chain of command.

These four military men, Army Gens Alvaro Lacalle Leloup and Ramon de Ascanio y Togores, Adm Saturnino Suanzes de la Hidalga and Air Force Gen Emilio Garcia-Conde Cenal, are the individuals who, in their respective posts will have to undertake the trial of those who perpetrated the coup of 23 February, and establish means for understanding between the civilian society and the military.

The replacement of the Joint Chiefs of Staff occurred in the Council of Ministers on 15 January, a week after the former Army Chief of Staff, Jose Gabeiras Montero, used very severe language in condemning the extreme right poison campaign in the barracks.

In that atmosphere of tension and apprehension, the dissemination of the news, which had been kept in the greatest of secrecy for a month, by the Europa Press agency, the same agency which distributed the "document of the 100", 24 hours before the replacement occurred, created a state of shock in press and political circles.

There were, moreover, other causes for alarm. A few days earlier, the extreme right press had asked for the head of Lt Gen Gabeiras Montero, and the attacks against the JUJEM had become more severe. The front page headline of HERALDO ESPANOL, referring to the Military Christmas speech, read: "Gabeiras causes an earthquake in the Armed Forces."

Nevertheless, there was no earthquake, and the renovation of the Joint Chiefs of Staff was not based on any type of pressure from the military, but rather on reasons of age.

Taking advantage of the fact that Lt Gen Jose Gabeiras Montero was retiring from his post with the JUJEM next April, and considering that the courts-martial

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against the perpetrators of the coup of 23 February are to be held this year, the president of the government, Leopoldo Calvo Sotelo, asked Gabeiras to advance his resignation a few months, so as to put at the head of the Army a younger military man, who could remain on active duty until the general elections were over.

The renovation, which was going to be limited to that, was made to apply to the full Joint Chiefs of Staff when the previous head of this entity, Ignacio Alfaro Arregui, talked with Calvo Sotelo and afforded him the leeway for making a more extensive restructuring.

Hence, the replacements of the Joint Chiefs had been disclosed since December. Throughout the month, the defense minister, Alberto Oliart, planned the changes in the most scrupulous secrecy. Forty days later, on Monday, 11 January, the minister had the remodeling devised, and it was submitted to the president of the government for approval.

Combined Replacement

Calvo Sotelo gave his approval for Oliart's plans. The following day, the president of the government received at Moncloa the brothers Ignacio and Emiliano Alfaro Arregui, chiefs of the JUJEM and Air Force Staff, respectively, and Jose Gabeiras Montero. The three chiefs expressed approval for the replacement being made in a combined manner. However, Adm Luis Arevalo Pelluz, Navy Chief of Staff, who had been traveling and who visited the presidential palace the next day, had misgivings about the plan. He was more in favor of a progressive change in the JUJEM commands, as they reached retirement. Oliart and Calvo Sotelo had to persuade him of the feasibility of creating a compact, homogeneous team to face the 23-F trials.

The restructuring was completed with the appointment of Gen Jose Saenz de Santamaria, a man who was typified by his unconditional support for democracy at the difficult time of 23 February, to the command of the captaincy of the Seventh Military Region, an area wherein conflicts with the government have arisen in recent months.

Gen Jose Aramburu Topete, director general of the Civil Guard, and one of the military mentioned for holding a post with the JUJEM, will be kept in his current position until the 23-F trials have ended. Jesus Gonzalez del Yerro, commander-in-chief of the Canaries, and one of the military who has prompted the most discussion, owing to his contacts with professional politicians, is beginning to sound in military circles like the replacement for Gen Joaquin de Valenzuela, in the king's Military Squad. However, the decision from Zarzuela does not appear to be inclined in that direction. Meanwhile, the former head of the JUJEM, Ignacio Alfaro Arregui, was named adviser to the president of the government on defense matters.

Professionals

The biographies of the new JUJEM commanders disclose that they comprise a young group within the bottom scale of the generalship, and a team of military with a brilliant service record and complete professional dedication.

Alvaro Lacalle Leloup, chief of the JUJEM, is 63 years old. He was born in Haro (La Rioja), and has spent 44 years in the Army. They underscore his tenure in the artillery headquarters of the Canaries, the command of the 6th Navarra Mountain

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Division, his assignment in the technical secretariat for economic affairs in the Defense Ministry and the command of the Captaincy General of the Seventh Military Region.

Two years younger, the Army Chief of Staff, Ramon Ascanio Togores, was born in Tenerife, and began his military career as a volunteer artillery soldier. His most recent assignments have been those of Army Artillery chief, artillery chief of the Guzman el Bueno Mechanized Division, and chief of the higher personnel command of the Army.

The Naval Chief of Staff, Saturnino Suanzes de la Hidalga, is the youngest of all. He was born in Vitoria, and is 60 years old. He is a naval artilleryman and helicopter pilot. Throughout his life, he has commanded eight warships, including the aircraft carrier "Dedalo".

A specialist in helicopters also, and tutor of the king, Air Force Chief of Staff Emilio Garcia-Conde Cenal was born in Oviedo, and is 63 years of age. He was air attache at the Spanish Embassies in Rome and Athens, director of the Air Force Helicopter School, and chief of the technical cabinet of Gen Manuel Gutierrez Mellado.

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